



ML Strategies Legislative Update

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## **ML Strategies 2017 Outlook: Appropriations & Budget**

The federal government is currently operating under a Continuing Resolution (CR) passed last December that extends funding for most federal agencies, programs, and services through April 27, 2017, while maintaining the current budget cap level of \$1.07 trillion put into place under the Budget Control Act of 2011. The CR contained additional Overseas Contingency Funding (OCO) of \$5.8 billion for the Defense Department, as well as 44.1 billion in disaster relief funding, \$170 million to address the infrastructure and health needs of communities affected by contaminated drinking water, and \$872 million for the 21st Century Cures Act to boost medical research, drug approval, and drug abuse efforts.

Looking ahead to 2017, the 115<sup>th</sup> Congress and new Trump Administration will have to tackle a number of spending and budgetary challenges including:

- Fiscal Year 2017 budget resolution that will set the stage for repeal of Obamacare;
- Fiscal Year 2018 budget resolution that could be used to move comprehensive tax reform;
- Conclusion of the appropriations process for Fiscal Year 2017;
- Spending bills for Fiscal Year 2018; and
- Raising the federal government's debt ceiling.

### **Executive Branch Agenda**

The new President-elect and his team are reportedly looking to make significant cuts to funding for several agencies, and the elimination of some programs, with a goal of reducing overall federal spending by more than \$10.5 trillion over the course of a decade. This significant reduction in spending goes further than the \$8.6 trillion decadal spending reductions proposed by the conservative Republican Study Committee for Fiscal Year 2017.

The proposed spending cuts and program eliminations are expected to align closely to those proposed by the Heritage Foundation last year:

- At the Commerce Department, the proposal could call for the elimination of the Minority Business Development Agency, the Economic Development Administration, the International Trade Administration, and the Manufacturing Extension Partnership.
- At the Department of Energy, the proposal could call for the elimination of the Office of Electricity, the Office of Energy Efficiency and Renewable Energy, and the Office of Fossil Energy.
- At the Department of Justice, the proposal could call for the elimination of the Office of Community Oriented Policing Services, Violence Against Women grants, and the Legal Services Corporation.
- At the State Department, the proposal could call for cutting funding for the Overseas Private Investment Corporation, the Paris Climate Agreement, and the United Nations' Intergovernmental Panel on Climate Change.
- The President-elect's budget priorities are also expected to call for doing away with the National Endowment for the Arts and the National Endowment of the Humanities, and privatizing the Corporation for Public Broadcasting, in keeping with the Heritage proposal.

The President is required by the Congressional Budget Act (CBA) of 1974 to submit his budget request for the upcoming fiscal year by the first Monday of February, although incoming presidents typically do not meet the deadline given the short timeframe between the inauguration and the deadline for submission of the budget request. Reports are that the new President's budget proposal will be released within the first 100 days of the new Administration, although it is expected that a shorter version of the budget, outlining their overall priorities, will be released within 45 days.

### **Key Trump Administration Political Appointees**

President-elect Trump has named Rep. Mick Mulvaney (R-SC) to head the Office of Management and Budget (OMB). Mr. Mulvaney, a former member of the House Budget Committee, is known as a fiscal hawk and is a founding member of the House Freedom Caucus, which takes a very conservative position on government spending. The Senate Budget Committee is scheduled to hold a confirmation hearing for Rep. Mulvaney on Tuesday, January 24, with the Senate Homeland Security and Governmental Affairs Committee, which also has jurisdiction over the OMB nomination, holding a hearing the same day.

The President-elect has named Steve Mnuchin to serve as Secretary of the Treasury. Mr. Mnuchin served as finance chairman of the Trump presidential campaign, and has been heavily involved in the finance sector for many years. For the first 17 years of his finance career, he worked for Goldman Sachs, where he became a partner and eventually served as CIO. After working for Goldman Sachs, he created his own hedge fund, Dune Capital Management LP. Mr. Mnuchin also previously worked as an investment professional at Soros Fund Management, Chairman of CIT Bank, Vice-chairman of ESL Investments, and Director of the Yale Development Board. He has been a major donor to both Republican and Democratic campaigns. The Senate Finance Committee held a confirmation hearing on January 19.

### **Congressional Committee Leadership**

The Senate Appropriations Committee will continue to be led by Sen. Thad Cochran (R-MS) as chairman in the 115<sup>th</sup> Congress. Sen. Patrick Leahy (D-VT) has given up his leadership role at the Senate Judiciary Committee to take over as Ranking Member of the Senate Appropriations

Committee for the 115<sup>th</sup> Congress, replacing Sen. Barbara Mikulski (D-MD) who retired at the end of the 114<sup>th</sup> Congress.

There are 12 appropriations subcommittees and four of them will have new ranking members for the 115<sup>th</sup> Congress, with Sen. Jeanne Shaheen (D-NH) leading the Democrats at the Commerce-Justice-Science Subcommittee, Sen. Jon Tester (D-MT) at the Homeland Security Subcommittee, Sen. Brian Schatz (D-HI) at the Military Construction and Veterans Affairs Subcommittee, and Sen. Chris Murphy (D-CT) taking the ranking member slot at the Legislative Branch Subcommittee. The remaining 8 subcommittees will have the same Democratic leadership as the previous Congress, with Sen. Richard Durbin (D-IL) at Defense; Sen. Patty Murray (D-WA) at Labor, Health, and Human Services; Sen. Dianne Feinstein (D-CA) at Energy and Water; Sen. Jack Reed (D-RI) at Transportation, Housing, and Urban Development; Sen. Tom Udall (D-NM) at Interior-Environment; Sen. Chris Coons (D-DE) at Financial Services; Sen. Jeff Merkley (D-OR) at Agriculture; and Chairman Leahy at State-Foreign Operations.

Chairman Cochran has not yet named the subcommittee chairs for the new Congress.

In the House of Representatives, Rep. Rodney Frelinghuysen (R-NJ) will assume the chairmanship of the Appropriations Committee, with Rep. Nita Lowey (D-NY) continuing as Ranking Member.

Chairman Frelinghuysen has named the Republican leadership of the 12 subcommittees with Rep. Robert Aderholdt (R-AL) at Agriculture and Rural Development; Rep. John Culberson (R-TX) at Commerce, Justice, Science; Rep. Kay Granger (R-TX) at Defense; Rep. Mike Simpson (R-ID) at Energy and Water; Rep. Tom Graves (R-GA) at Financial Services; Rep. John Carter (R-TX) at Homeland Security; Rep. Ken Calvert (R-CA) at Interior; Rep. Tom Cole (R-OK) at Labor, Health, and Human Services; Rep. Kevin Yoder (R-KS) at Legislative Branch; Rep. Charlie Dent (R-PA) at Military Construction and Veterans Affairs; Rep. Hal Rogers (R-KY) at State and Foreign Operations; and Rep. Mario Diaz-Balart (R-FL) at Transportation, Housing, and Urban Development.

Democratic subcommittee leadership has not yet been named.

The Senate Budget Committee will see the return of Chairman Mike Enzi (R-WY) and Ranking Member Bernie Sanders (I-VT).

House Budget Committee chairman Tom Price (R-GA) has been nominated to serve as Secretary of Health and Human Services. If confirmed, Rep. Diane Black (R-TN) is expected to take over as committee chair. Democrats will also have new leadership on the committee with Rep. John Yarmuth (D-KY) taking the role of Ranking Member, replacing Chris Van Hollen (D-MD), who was elected to the Senate.

### **Legislative Activity**

- **Fiscal Year 2017 Budget Resolution:** One of the initial items taken up by the new congress was a first-step in the repeal of Obamacare via the Fiscal Year 2017 budget resolution. The resolution includes: tools to allow repeal legislation to move through a fast-track process and pass with a simple majority in the Senate, as in the House; reconciliation instructions to four authorizing committees – Ways and Means and Energy and Commerce in the House, Finance, and Health, Education, Labor, and Pensions (HELP) in the Senate – to achieve at least \$1 billion each in deficit reduction over 10 years (fiscal years 2017 through 2026); suggested deadlines for the authorizing committees to report legislation to the Senate and

House Budget Committees by January 27, 2017 (the legislation will be combined for consideration in both the House and Senate); and reserve funds necessary to accommodate legislation to repeal and replace Obamacare, and accommodate patient-centered health care reform legislation in the future.

- **Fiscal Year 2018 Budget Resolution:** Senate Majority Leader McConnell said last month that he plans to also move tax reform this year through a second budget reconciliation process for Fiscal Year 2018 that will include instructions to reduce the deficit through the tax code. While that second budget resolution has been expected sometime in the spring, it now appears to be slipping to later in the year. As with the just-passed budget reconciliation measure for Fiscal Year 2017, it would allow for tax reform to pass both houses of Congress with a simple majority as in the House, eliminating the possibility of a Democratic filibuster in the Senate.
- **Fiscal Year 2017 Appropriations:** With the current CR expiring on April 27 the appropriations subcommittees will be working to set spending priorities for the remaining five months of the current fiscal year. The appropriations that are set for the waning months of the current fiscal year will be in accordance with the requirements of the FY17 budget resolution discussed above. Final conclusion of FY17 spending is not expected until close to the April deadline, and could come in either a large omnibus spending bill or, should the debate over spending cuts prove too acrimonious, a new CR that would run through the end of the fiscal year at current levels.
- **Fiscal Year 2018 Appropriations:** Once they have concluded FY17 appropriations, and following submission of the new president's budget request, the House and Senate Appropriations Committees and their subcommittees will begin work to draft and advance through the committee process spending bills for the next fiscal year which begins on October 1.
- **Debt Ceiling:** In the fall of 2015 Congress voted to suspend the federal government's debt ceiling until March 16, 2017. The current debt ceiling is \$20.1 trillion. Traditionally, an increase in the debt ceiling, the upper limit of how much money the government can borrow to meet its existing obligations, has been a routine matter. In fact, since 1940 there have been nearly 100 adjustments in the debt ceiling. However, in recent years it became embroiled in conflict between the two parties on Capitol Hill and with the Obama Administration in relation to spending for defense and non-defense priorities. While the deadline for raising the debt ceiling is in mid-March, the Treasury Department is believed to have available so-called "extraordinary measures" available through July to avoid a default.

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